

TENNESSEE REGULATORY AUTHORITY

Deborah Taylor Tate, Chairman
Pat Miller, Director
Sara Kyle, Director
Ron Jones, Director



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

November 26, 2003

03-00071

Mr. Mark Ivey, President
Memphis Networx, LLC
7620 Appling Center Drive
Suite 101
Memphis, Tennessee 38133

Dear Mr. Ivey:

This letter is in response to the proposed audit plan and engagement letter submitted via e-mail on Monday, November 10, 2003 by Mr. John Skelton, Partner, Ernst and Young, LLP. The majority of the proposed audit plan and engagement letter are acceptable; however, there are certain procedural revisions/additions that we would like incorporated into the plan and engagement letter.

For Objective VII in the audit plan, we request that Ernst & Young, LLP obtain invoices/contracts between MLGW and other entities for similar type of make-ready work and engineering. The invoice/contract amounts for other entities should then be compared to the amounts billed to Memphis Networx to determine if MLGW is providing Memphis Networx with preferential rates for make-ready work and engineering.

We also have some requested changes to the engagement letter. First, while the audit is to be conducted under our supervision, the TRA is not a party and therefore should not sign the engagement letter. Rather, the TRA is responsible for ensuring that an audit is performed and for determining whether Memphis Networx and MLGW are complying with TRA mandates and statutory requirements. Pursuant to our supervisory capacity and statutory responsibility, we request a provision be added to the engagement letter allowing the TRA to add supplemental procedures if something comes to our attention that warrants a more extensive review. Finally, the engagement letter states that the audit report will be restricted to MLGW, Memphis Networx and the TRA. Since the report will be filed with TRA, it must be made available for public inspection at the TRA pursuant to the Public Records Act (See Tenn. Code Ann. § 10-7-503).

Finally, I am most concerned that the letter of engagement does not set forth any dates for completing the procedures or issuance of the report by Ernst and Young, LLP. This audit is well behind schedule; therefore, it is requested that the following scheduled be incorporated into the engagement letter:

December 3, 2003	Engagement Letter and Audit Plan provided to TRA (Please include all recommended changes herein)
December 10, 2003	Commencement of Audit (agreed-upon procedures)
January 30, 2004	Completion of Audit Procedures
February 2 - 6, 2004	Results of Procedures made available to Staff for review
February 20, 2004	Issuance of Report by Auditor.

Note: Upon review of the results of the procedures by Staff, it may be necessary for additional procedures to be performed. In this scenario, sufficient time will be given for performing the additional procedures and final issuance of the report.

If the above schedule cannot be incorporated into the engagement letter and provided to the Authority by December 3, 2003, the matter will appear before the Directors at an Authority Conference for a decision on all outstanding issues.

If there are any questions or need for clarification, please contact David Foster at (615) 741-2791, extension 188.

Sincerely,

Joe Werner by DF with permission

Joe Werner, Chief
Telecommunications Division

C: John Skelton, Partner
Ernst & Young, LLP
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